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INDUSTRY NEWS

Timely withdrawal of founder-managers a key to success, study finds

NEW YORK—The most critical factor in transforming founder-managed firms into successful, professionally managed organizations is the timely withdrawal of the founder from active management of the company, according to a recent study by the New York-based Conference Board.

The study which surveyed family-run businesses, found that the "moment of truth" for founder-operated firms—which comprise more than 90% of all U.S. firms and a sizable proportion of industrial distributors—is the orderly transition of power from the founders to professional, competent successors, who may or may not be members of the family.

The founders interviewed for the study noted that although the "letting go" process is difficult and often traumatic, it is vital for the success and continuity of the business.

"While most if not all of the world's major enterprises began as owner-managed firms," notes the study, "family businesses face a long and difficult road in attempting to become future Fords or DuPonts."

One of the most critical problems, points out the report, *From Owner to Professional Management: Problems in Transition*, is in reconciling the founder's intense involvement in all aspects of the business with the need to begin delegating decision-making authority to others. "Founders who have presided over their company's evolution into effective, full-fledged business organizations have largely done so because they have been adaptable enough to change their personal roles as the company moves toward maturity," the report states.

The study found certain key common elements in what it termed "effective disengagements" by founder-managers:

- They relinquish control when they are still in full command of their abilities and are able to lend support and counsel to new management.
- Their withdrawal from active management is final, leaving no doubt among employees, customers and suppliers that they are stepping down.
- They commit themselves publicly to an orderly plan of succession.

The actual transition from what the study calls "rule to reign" involves two distinct steps by the founder. First he begins delegating operational tasks to others. The second step involves his withdrawing from day-to-day involvement in the business but not going into retirement. Most retain a position on the board, review decisions and oversee performance.

It is in this oversight role, the study stresses, that there is the greatest room for failure in making the transition successful. It is imperative that founders continue to advise the incoming management until the business has once again become stable.

Although the changing of the guard in a family-owned business is often marked by "highly emotional conflict" within the family, there are certain steps the family can take to ease the transfer of power:

- Create clear-cut demarcation lines between family ownership roles and business or managerial roles.
- Assure that heirs who assume business responsibilities are properly trained for the task.

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RMA forecasts hose and belting growth to slacken

WASHINGTON, DC—Annual growth rates of industrial hose, flat belting and V-belting will average 2.3% from now until 1989, according to a market forecast prepared by the Industrial Products Statistical Committee of the Rubber Manufacturers Assn.

The forecast, prepared as a cooperative effort by the 80-plus companies which comprise the RMA's Industrial Products Div., predicts that the strong growth rate in hose and belting which manifested itself in the first six months of 1984, will ease up by the end of the year.

Nevertheless, says the forecast, 1984 activity will project a yearly growth pattern "which is far above normal historical growth trends for the industry." The next five years, however, should produce a more "normal" pattern for the products.

The RMA notes that high interest rates and large federal deficits will prevent any "sustained strong real growth in the years ahead."

Totals given below for each product represent U.S. demand and includes estimated domestic shipments less exports plus imports. Figures are in millions of dollars fixed at 1984 dollar values. □

HOSE

All reinforced hose, rubber or plastic, except garden hose. It is comparable with the total dollar shipments in the U.S. Bureau of the Census SIC Codes, 30413, 30414, and 30416, minus exports, plus imports.

1984	1985	1986	1987	1988	1989	Annual Growth
$ 1050	$ 1080	$ 1107	$ 1135	$ 1160	$ 1195	2.5%

FLAT BELTING

All conveyor, elevator and flat transmission belting of rubber or plastic. It is comparable with the total dollar shipments in the Bureau of the Census SIC Code 30411, minus exports, plus imports.

1984	1985	1986	1987	1988	1989	Annual Growth
$ 270	$ 294	$ 290	$ 295	$ 300	$ 305	2.0%

V-BELTS

All power transmission belts, including industrial and automotive other than flat, of rubber or plastic, including belts made for original equipment and replacement. It is comparable with the total dollar shipments in the Bureau of the Census SIC Code 30412, minus exports, plus imports.

1984	1985	1986	1987	1988	1989	Annual Growth
$ 502	$ 517	$ 530	$ 540	$ 550	$ 560	2.2%

Jaynes

marketing, a position to which Lee Eison, former Gates Industrial Sales Div. regional sales manager has been named.

The Gates Molded Products Co., a recent acquisition, produces engineered and molded rubber products for the oil, building and construction industries. It sells about one-quarter of its products through industrial distributors. □

Indicators . . .

Two of the three key indicators to distributor's economic activity this month advanced, providing additional strength to a recovery that is approaching its second full year. The NIDA-SIDA *Industrial Distribution Index* rose by 10.6 points in August to 144.7, the highest level reported in the last 32 months. Regionally, all sectors advanced with the West and the South posting the strongest gains...SIDA's *Monthly Sales Trend Report* for July showed a decline of 6.47 compared with June, with losses occurring in all reporting areas although Area 2 comprising FL, GA, SC and Puerto Rico showed the largest decline of 16.95. On the other hand, July '84 versus July '83 shows an increase of 17.41 and year-to-date '84 versus year-to-date '83 indicates growth of 23.10...ASMMA's *New Order Index* for July increased 1.2 points to 120.3 for a one percent rise over June. This latest increase continues the see-saw pattern begun in January when the index stood at 119.6. Since then the index has declined twice and advanced four times. Despite these up-and-down fluctuations, the *Index* hasn't exceeded its current figures since the end of 1981...According to the American Machine Tool Distributors' Assn., July sales of new machine tools in the U.S. by distributors remained strong. The August index declined to 72.9, down from 75.5 in June but still a healthy 37% ahead of July 1983. At the same time, AMTDA's *Distributors' New Orders Trend* advanced for the 15th consecutive month standing at 64.7, a 44.1% improvement over last year's July figure. Orders for metal forming machine tools advanced an impressive 45.3% in July compared with June while orders for metal cutting tools declined by 10.1%... The National Welding Supply Assn. reports that while purchases of welding supplies eased by 2.2% in July from June, year-to-date totals remain a strong 21.3% over 1983. NWSA also points out that, excluding 1984, the current figure of 166.8 has only been exceeded once in the last 55 months.

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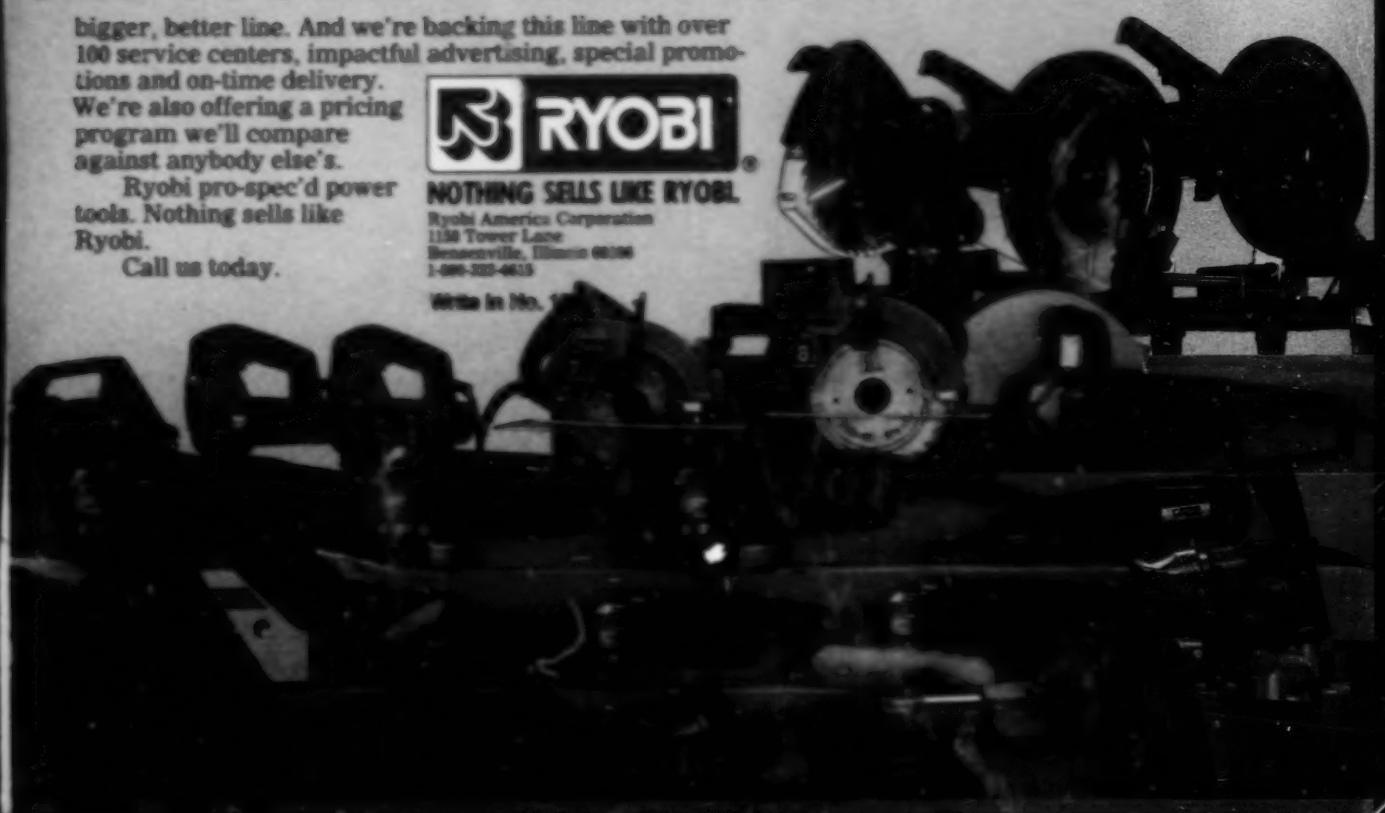


REGIONAL REPORT

Sales gains slide in August

Usually a slow month for distributor sales, August's national figures are 19% higher than August of last year, but down ten percentage points from July's near-record 29%.

With the reduced gains in most of the regions and areas reporting, a leveling off in national comparisons is evident. Wide discrepancies in sales gains between regions and areas are no longer in evidence. Comparatively, all of the national figures indicate gains in a narrower-than-usual range.

The Georgia-Florida area gain was the highest at 26%, while the West South Central region was the lowest at 10%. In-between figures for regions and areas are mostly in the teens.

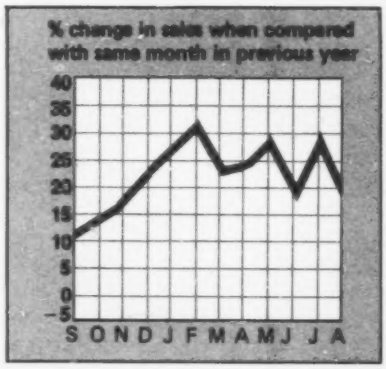
Similarly, the cumulative figures for the first eight months of '84 compared to '83, range from a low of 20% to a high of 32%, all gains. The U.S. totals are up 25% which is virtually unchanged from July (26%) and June (24%). These steady figures are most likely to close out the year.

In month-to-month statistics, where figures have tended toward the minus side the past few months, almost all areas and regions are now reporting pluses. The U.S. total is up 9% compared to a 5% drop in July and a 4% drop in June. All regions in this category are plus with the exception of West South Central which is down 6%.

Receivables show a slight improvement compared to the past several months, but the national average does not seem able to break under 40 days. □

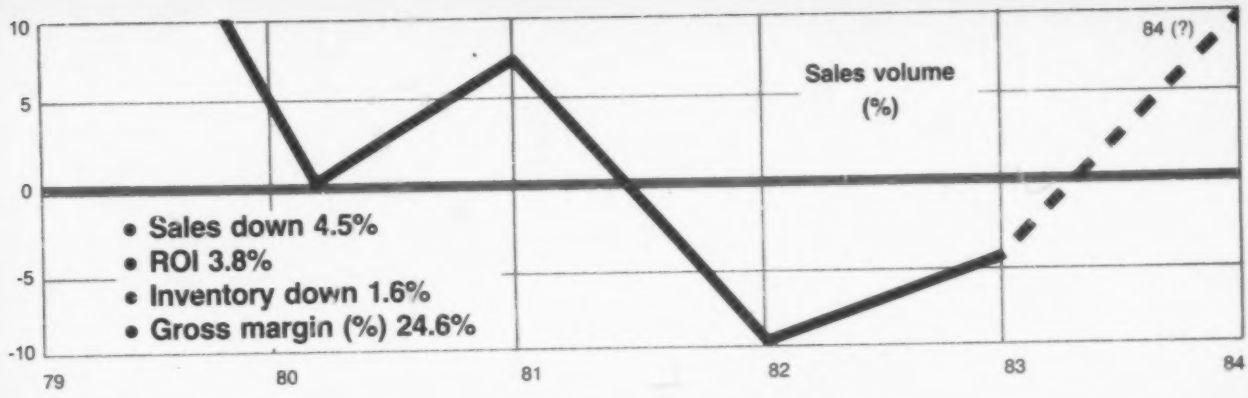
RECEIVABLES*	August '84 Gen.	August '84 Spec.	August '83 Gen.	August '83 Spec.
New England	46	51	44	48
Middle Atlantic	44	45	43	46
South Atlantic	34	36	33	35
East North Central	38	40	36	37
East South Central	39	—	—	—
West North Central	—	50	—	51
West South Central	—	38	—	47
Mountain	—	—	—	—
Pacific	42	40	42	41
National	41	43	40	44

*Average days outstanding



August sales dip . . .

SALES BY REGIONS (% change)	August '84 vs July '84 Gen.	Spec.	Both	August '84 vs August '83 Gen.	Spec.	Both	1st 8 mos. '84 vs 1st 8 mos. '83 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	0	+12	+7	+6	+22	+15	+22	+24	+23
Connecticut	—	+16	—	+6	+33	+13	+27	+13	+22
Massachusetts	+5	+11	+9	+8	+20	+16	+15	+27	+23
MIDDLE ATLANTIC: NY, NJ, PA	+3	+9	+7	+11	+24	+19	+16	+26	+22
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	+2	—	--	+21	+6	+16	+23	+25	+24
Pennsylvania	+28	+14	+19	+15	+20	+19	+10	+27	+20
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	+19	+14	+17	+31	+11	+22	+28	+17	+23
SC, VA, WV	—	—	—	—	—	—	—	—	—
Georgia-Florida	+33	+11	+20	+52	+10	+26	+34	+21	+26
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	+13	+14	+13	+20	+26	+23	+30	+34	+32
Indiana	—	+27	—	—	+18	—	—	+14	—
Wisconsin	+11	+16	+15	—	+29	—	+1	+39	+30
Chicago	—	—	—	—	—	—	—	—	—
Michigan	+9	+28	+21	+18	—	—	+28	—	—
Ohio	+19	+16	+17	+17	+13	+15	+28	+21	+24
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	-19	—	—	—	—	—	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+36	+14	+20	+10	+15	+13	—	+16	—
WEST SOUTH CENTRAL: AK, LA, OK, TX	-5	-6	-6	+6	+11	+10	+34	+20	+22
Texas	—	-6	—	—	+10	—	—	+20	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	—	—	—	—	—	—	—	—	—
PACIFIC: CA, OR, WA	+1	+16	+5	+21	+12	+18	+24	+20	+23
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+8	+20	+15	+44	+6	+20	+29	+14	+20
U.S. TOTALS	+9	+9	+9	+21	+18	+19	+26	+25	+25



Productivity report confirms sales down in 1983

PHILADELPHIA, PA—Sales were down 4.5% in 1983 among the roughly 200 respondents to the National and Southern Industrial Distributors Assns.' (NIDA/SIDA) survey for the organizations' annual productivity report. The typical firm had a sales volume of $4,947,000 in 1983, compared to $5,055,000 in 1982, the report reveals.

Robert Clifton, executive vice president of NIDA, said that while the report contained no real surprises, much of its data is very significant (see tables).

"*The Distributor Productivity Report* covers all the operating expense figures broken down in functional areas such as outside sales, inside sales, warehouse expense, office expense, etc. And these figures are represented as both percentage of sales and percentage of gross margins," he said.

Clifton added that distributors can use the report as "a benchmark to measure performance against other members."

"How I compare with my fellow distributors is the big question," Clifton continued. "If the return on investment is inadequate, the distributor better do something about it. Maybe a distributor will find out that he is engaged in unnecessary price cutting and therefore starting off behind the eight ball with inadequate margins no matter how efficiently his operating costs are arranged."

The report states that the average re-

Five year performance trends*

	1983	1982	1981	1980	1979
Growth in sales	-4.5	-9.7	6.0	5.0	22.8
GM/employee ($1,000)	37.7	37.9	37.5	35.2	35.0
Personnel Productivity Ratio	62.0	61.5	57.4	55.1	49.7
Gross margin percent:					
Total GM	24.6	24.6	22.3	22.7	22.1
Stock GM	25.7	25.9	23.1	24.0	22.8
Special order GM	22.3	22.4	21.3	20.5	21.1
Direct GM	18.3	18.2	16.6	15.7	16.5
Net profit before tax/sales	0.6	0.7	2.5	3.0	3.8
Accounts receivable days	45.2	35.6	41.0	39.0	44.0
Inventory turnover (stock sales)	2.4	2.4	3.7	3.7	3.8
Return on investment	3.8	3.3	10.2	11.2	16.4

Income as a % of sales*

		Breakdown by sales volume (millions)				
	All firms	Under $2.0	$2.0 to $4.99	$5.0 to $7.49	$7.5 to $9.99	$10.0 and over
Sales:	100.0	100.0	100.0	100.0	100.0	100.0
Gross Margin	24.6	27.7	25.1	24.3	24.4	23.6
Department Expense:						
Outside sales	6.1	8.2	6.0	6.5	6.2	5.6
Inside sales	3.0	3.4	2.9	2.7	2.8	3.2
Purchasing	1.0	1.7	1.1	0.7	0.8	0.8
Delivery	1.0	0.6	1.0	0.9	0.8	1.3
Occupancy	1.5	2.3	1.6	1.4	1.4	1.3
Warehouse	1.9	1.5	1.6	2.4	2.0	2.5
Office & credit	3.3	3.7	3.3	3.3	3.7	3.7
Data processing	1.2	0.6	1.4	0.7	1.0	0.7
Admin. & general	3.8	5.5	4.0	4.0	2.9	2.7
Total Departments	23.6	27.7	23.9	23.4	22.2	22.2
Profit:						
Operating profit	-1.5	-1.2	-1.6	-0.6	-2.3	-1.7
Interest paid	0.7	0.5	0.9	0.5	0.9	0.4
Other income (net)	0.2	0.6	0.1	0.5	0.2	0.2
LIFO adjustment	0.0	0.7	0.0	0.1	0.1	-0.1
Net profit before tax	-0.6	-0.3	-0.5	-0.2	-1.4	-1.1
Net profit after tax	-0.5	-0.2	-0.4	-0.3	-1.1	-0.7

* All figures in this Summary Report are based on median values and expressed as percents unless otherwise noted.

turn on investment was only 3.8% in 1983. "This is a very, very poor figure," Clifton states, "and was obviously caused by the recession."

Clifton also feels that the report's turnover information is important. These figures show how well distributors are investing their money and what the ratio is between inventory and sales.

As for trends, he said that the report shows that inside sales costs are higher while outside sales costs took a dip in 1983, indicating that distributors are shifting to more telephone selling.

Non-members interested in the 41-page report can receive a copy by mailing a $150 check payable to the associations' Financial Management and Statistics Committee, c/o National Industrial Distributors Assn., 1900 Arch St., Philadelphia, PA 19103. For a $75 fee, members can submit data and receive an individualized report to see where they stand among their peers along with the analysis.

Productivity starts with customer service

- **Optimize minimum order size and/or shipment units when possible.** If you receive multiple orders for small items by wire or phone from individual customers, if you haven't already done so, consider setting up a system for trapping those orders so they can go out in consolidated shipments.
- **Streamline procedures for smaller orders.** Where it's practical to set minimum order levels consider simply sending the part out with a reply-type invoice enclosed and trusting the customer to pay rather than going through the regular invoicing process and keeping accounts receivables records.
- **Set criteria for automatic adjustment of complaints and claims within specified limits.** Where relatively small amounts are involved, it usually costs more to investigate a claim or complaint than it does to pay them without considering whether or not they are justified.
- **Set criteria for automatic writeoff of small chargebacks and other discrepancies in payment.** One firm programs its computer to accept discrepancies of $5 or less and permits customer reps to automatically adjust amounts up to $100. Over that amount, the payment must be referred to a manager for approval.
- **Reduce customer service levels on non-critical orders.** Doubling lead time from one week to two would have had virtually no negative impact and would have enabled substantial cost reduction in order

[continued on page 74]

Income as a % of gross margin*

		Breakdown by sales volume (millions)				
	All firms	Under $2.0	$2.0 to $4.99	$5.0 to $7.49	$7.5 to $9.99	$10.0 and over
Gross Margin	100.0	100.0	100.0	100.0	100.0	100.0
Department Expense:						
Outside sales	24.3	27.9	24.3	27.5	23.7	22.3
Inside sales	11.8	11.6	10.7	11.4	11.2	14.2
Purchasing	4.0	5.6	4.5	3.2	3.3	3.5
Delivery	3.9	2.3	3.8	3.9	3.6	5.2
Occupancy	6.1	7.6	6.0	6.1	5.5	5.6
Warehouse	7.2	5.7	7.1	8.5	8.7	10.1
Office & credit	13.3	12.3	12.7	13.9	14.3	12.6
Data processing	4.6	2.2	6.0	4.7	3.4	4.6
Administrative	14.4	19.1	15.8	16.5	12.6	13.0
Total Departments	95.1	97.8	94.0	97.2	90.7	93.0
Profit:						
Operating profit	-6.1	-4.1	-5.5	-2.4	-6.4	-6.7
Interest paid	2.9	3.2	3.4	1.7	3.3	2.1
Other income (net)	0.8	2.4	0.4	2.0	0.9	0.8
LIFO adjustment	0.2	2.4	0.0	0.3	0.4	-0.4
Net profit before tax	-2.1	-1.4	-2.6	-1.3	-6.4	-4.4
Net profit after tax	-1.4	-0.6	-1.6	-1.4	-4.5	-2.9
Personnel Productivity Ratios:						
Outside sales PPR	19.1	22.8	18.8	18.3	21.9	18.4
Inside sales PPR	9.4	10.1	8.9	9.3	9.3	10.8
Purchasing PPR	3.8	4.8	4.4	3.1	3.3	3.1
Delivery PPR	2.2	0.8	2.1	2.3	2.1	2.3
Warehouse PPR	6.1	4.7	6.0	5.4	6.2	7.4
Office & credit PPR	7.0	7.2	7.0	7.1	6.7	6.6
Data processing PPR	2.4	N/A	2.6	2.3	1.7	1.9
Administrative PPR	9.2	11.6	9.1	11.9	8.0	8.1
Total PPR	62.0	61.4	62.0	65.2	59.5	64.1
Asset Management:						
Leverage	2.2	2.0	2.2	2.2	2.3	1.8
Current ratio	2.1	2.3	2.0	2.1	2.0	2.5
Asset turnover	2.6	2.4	2.8	2.8	2.8	2.5
Inventory turnover	2.4	2.2	2.5	2.9	2.3	2.2
Accounts receivable days	45.2	43.3	45.0	44.1	46.3	48.6
Return on investment	3.8	4.0	3.0	2.4	7.5	4.4
Other Measures:						
Gross margin/employee ($000)	37.7	36.7	36.2	40.3	44.0	39.6
Gross margin/LOB** ($)	16.71	16.78	16.04	16.90	17.02	16.92
Operating cost/LOB ($)	15.82	16.00	14.33	16.73	16.19	17.79
Sales growth (%)	-4.5	-6.6	-5.4	-2.2	2.6	-4.3
Inventory change (%)	-1.6	0.5	0.3	-5.9	-0.2	-3.0

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Productivity report . . .

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fulfillment. Many companies now set different standards for order fill and lead time according to the type of industry as well as the end use of the product ordered; for example, purchasing for inventory vs. purchasing to resolve a machine-down situation or meet a specific needed date for jobsite use.

- **Identify the least profitable customers and overcome the causes of their low profitability, if possible.** Sometimes smaller customers simply aren't aware of proper ordering procedure, inventory management and planning techniques and the like, and assistance in these respects may be all that's needed to turn them into profitable customers.
- **Develop subroutines for repetitive "exceptions."** The simplest kind of exception is probably a stockout. The subroutine can be either computerized or manual; it's basically a decision tree which asks a series of questions. The questions may be fairly extensive, depending on the type of business, but once they have been programmed into a decision tree, the rep handling the order will have guidance for most exceptions of this type.
- **Test new approaches.** Three that offer particular promise for cost reduction include; 1) assignment of customer service reps by account rather than on a random basis; 2) calling customers on schedule rather than waiting for them to call in orders; and 3) providing incentives or bonuses for reductions in error rates, improvements in productivity, etc.
- **Review total order cycle for inefficiencies.** One firm receives hundreds of orders on business reply cards of various sizes and shapes. The cards are laid out in different ways, so that order information appears in different positions on different cards. For example, on one card "weight" and "quantity" appear in certain positions, while on another card from a different mailing, the "weight" box might appear where the "quantity" box appeared on the first card, and vice versa. This requires a costly and time-consuming double check of all orders to prevent order entry errors—an expense that could largely be avoided simply by using the same format for all order cards.
- **Improve information and feedback systems.** Many costly errors occur because the right information isn't at the right place at the right time.

Excerpts from
Customer Service Newsletter,
Marketing Publications,
Silver Spring, MD

Sales, confidence rebound in tools & fasteners

Sales were up nearly 20% for Specialty Tools & Fasteners Distributors Assn. (STAFDA) members in 1983 from the previous year, according to the association's *Operating Results Report*. Return on net worth was 15.9%—rebounding from last year's five-year low of 11%.

STAFDA members, which includes 556 distributors, sell power tools and accessories primarily to the construction industry. STAFDA's distributors are selling roughly $2.25 billion worth of goods a year, according to Morrie Halvorsen, the association's executive director.

Gross margin was typically 34.1% of sales, the report states, which, after operating expenses of 31.3% produced an operating profit of 2.8%. The net profit *after* tax was 2.2%.

These figures, viewed as indications of a strong recovery in the industry, were generally up from 1982 but do not reach the levels of the late 70's and early 80's (see chart). However, many STAFDA members are very confident about the state of the industry.

"I'm very optimistic about the next couple of years," claims Joe Woods, head of Joe Woods Sales Co., Dallas, TX. "I'm covering Texas, Louisiana and Oklahoma and these areas—especially Texas and Oklahoma—are growing considerably."

Woods says a good deal of his growth is the result of the large amount of commercial construction under way in Dallas and Austin. "I expect to do about 15% more this year than last year and expect this kind of growth to continue," he says.

Chuck Young, president of Cascade Contractors Supply, Bellevue, WA, also feels that business will continue to be strong. "Business is great. In our area there is a lot of construction. It seems that right now the contractors are not anticipating high interest rates or inflation; they're just going ahead and building projects.

"The next year coming up is going to be another outstanding year—I'm sure of that. We are going to increase our inventory and probably open up another branch," he says.

However, not every distributor is sure of growth. Paul Connelly, of Construction Tool Service Inc., Pittsburgh, PA, claims that his area is not strong right now. "Pittsburgh is a little bit of a blit in the marketplace," he says. "I was looking at the results and we're holding our own compared to '83 but it is not a growth situation. Our fortunes are still somewhat tied to the steel industry.

"But we're a little unusual; in '82 when other STAFDA houses were down, we

5 Year Trend

	1983	1982	1981	1980	1979
1. Percent of Sales Increase	19.2%	−1.9%	5.3%	5.6%	21.9%
Average Dollar Sales Volume ($ Thousands)	$3,256	$2,927	$3,000		
2. Gross Profit (% of Sales)	35.0%	35.3%	37.0%	33.9%	33.5%
3. Sales Per Employee	$130,869	$134,435	$122,099	$118,876	$114,163
4. Gross Profit Per Employee	$43,130	$43,846	$46,875	$41,141	$38,241
5. Net Profit BEFORE Taxes To Net Sales (%)	2.7%	2.1%	4.4%	4.7%	6.0%
6. Net Profit AFTER Taxes To Net Sales (%)	2.2%	1.5%	2.7%	3.2%	3.6%
7. Inventory Turnover (times)	4.1	3.7	4.4	4.1	4.0
8. Return on Net Worth (%)	15.9%	11.0%	18.2%	17.9%	29.1%
9. Current Ratio	2.8	2.9	2.6	1.8	2.1
10. Bad Debt Losses (% of Sales)	.3%	.6%	.6%	.5%	.6%
11. Change in Inventory Level (%)	17.1%	1.1%	13.9%	20.6%	26.3%
12. Accounts Receivable - Days Outstanding (Accounts Receivable ÷ Total Sales per Day)	43 days	40 days	40 days	43 days	46 days

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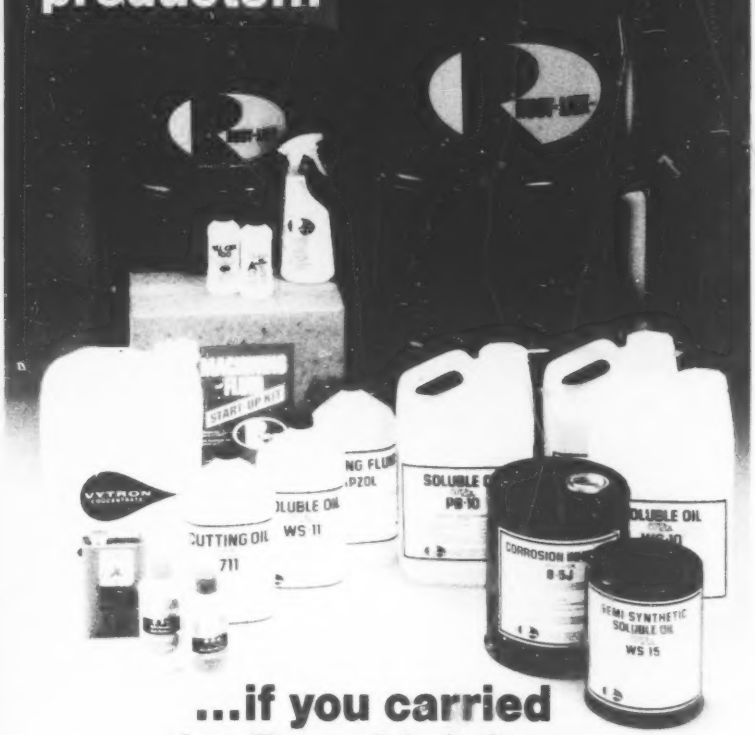

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Distributor profile

The 1984 STAFDA *Distributor Profile Survey* indicates that industry sales in 1984 appear to be running 25% higher than in 1983. Other interesting information in the survey includes:

- Compensation for owners/managers, on average, increased 14.3% in two years.
- Members extended fringe benefits in approximately the same ratio as in 1982 (except for a 10% drop in pension plan programs).
- Product liability claims increased slightly, but only 2% of the members reported problems obtaining coverage. Coverage premium decreased or stayed the same for 79%.
- Two years ago 48% of the members had in-house computers. Today, 69% do.
- Only 8% of the distributors have union employees, up from 6% in 1982.

weren't because of a downtown building expansion that was going on."

Still, Connelly is not without some optimism. "I see slow growth for the next couple of years, subdued growth and low inflation," he states.

Another important part of the study is the section called "Determinates of High Profitability" in which "high-performance companies" were analyzed.

The report notes that "there is no single factor that leads to higher performance. Rather, there is a combination of relatively minor factors that in aggregate help firms operate more profitability."

Among the factors noted in the report are:

- *Inventory utilization.* The more successful distributors are very good at managing inventory, and their ability to pay attention to small details made a big difference in inventory management.
- *Bottom line performance.* A big difference between high profit makers and other companies was their ability to keep lower operating expenses and lower interest expenses.
- *Asset turnover.* High-performance distributors were able to have more sales per dollar invested in assets.

Other important factors in determining profitability were sales per outside salesman and selling to building/residential contractors. Equally important are the factors that did *not* influence profitability: size, accounts receivable and product mix.

Bill Kelley